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TAGS: ECON EFIN TU
SUBJECT: IMF REP ATKINSON BRIEFS AUDIENCE IN ISTANBUL

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¶1. (SBU) (Summary): Fresh from the G-8 Conference in Italy, IMF External Relations Director Caroline Atkinson met with local business leaders and analysts in Istanbul at a conference sponsored by DEIK (Foreign Economic Relations Board) to discuss the Fund's view of the global financial crisis and the upcoming World Bank-IMF meetings. During the presentation and a Q&A session that followed, Atkinson stated that the worst of the crisis was behind us, but that significant challenges remained, among them sluggish global growth, China's trade surplus and the need for a fiscal "exit strategy" for the G-8. Atkinson stated that the U.S. dollar would remain the world's reserve currency, but declined to comment on an IMF standby arrangement with Turkey. (End Summary).

THE GLOBAL ECONOMY

¶2. (SBU) IMF External Relations Director Caroline Atkinson's July 11 presentation was the second in a series of Platform Levent Meetings held by DEIK. Atkinson paraphrased IMF Managing Director Dominique Strauss-Kahn as saying that although the global recession is ending, "it won't feel better for a while" since unemployment is a lagging economic indicator which will not improve markedly in the near future. Nevertheless, she explained a number of metrics used by the IMF indicate that global systemic risk has subsided significantly in recent months. Growth in the next couple of years will be sluggish and choppy, but inflation will remain in check. Citing the IMF's 2009 World Economic Outlook, Atkinson presented a global growth rate forecast of 1.4% in 2009 and 2.5% in 2010, with China and India leading the world. The IMF growth forecast for China is 7.5% in 2009 and 8.5% in 2010, while for India the forecast is 5.5% in 2009 and 6.5% in 2010.

THE POLICY RESPONSE

¶3. (SBU) Atkinson stated that inter-governmental policies have helped prevent a worsening of the crisis. The world's leading economies and financial institutions, led by the United States, have used massive fiscal stimulus, balance of payments loans and bank re-liquefaction to stabilize the

global financial system. The IMF presently has new loan commitments of USD 160 billion in its pipeline, though these loans have not yet been disbursed. Director Atkinson stated that the United States, China, Russia and Japan are all "on board" in terms of their IMF lending commitments.

¶4. (SBU) Atkinson argued that continued concerted policies will be necessary to increase financial credit availability, restore financial health and stabilize global commodity prices. Commercial real estate lending to builders and developers must increase, as must cross border lending, which will require greater confidence among financial institutions. The IMF Director also underlined the crucial need for governments to eschew trade protectionism.

CHINA, EUROPE AND EXIT STRATEGIES

¶5. (SBU) Debt sustainability is a major concern of the IMF, and Atkinson raised whether there will be continued global appetite for debt, especially emerging market (EM) debt. A Chinese domestic stimulus policy would be desirable as an anchor for world economic growth, yet the Chinese consumer is leery of spending, since he lacks a decent social safety net and therefore wants to save, she explained. China, therefore, continues to run huge external surpluses.

¶6. (SBU) Atkinson went on to emphasize that European economic vitality must be restored, but the Fund is less confident about the recovery in Europe. (Note: Atkinson cited IMF expectations that Germany's economy is contracting at a 6% annual rate. End note). There is a need to restore bank health in Europe, since the banking sector affects both housing and corporate credit. Structural reform of Europe's

economies is required to make them more "dynamic."

¶7. (SBU) The governments that have crafted huge fiscal stimulus programs in response to the Crisis need an "exit strategy" to rein in deficits and reduce overall debt loads, while avoiding a significant up-tick in inflation. Debt will continue to grow in the developed countries until at least 2014, Atkinson offered, and will equal or exceed 100% of aggregate GDP in those countries.

TURKEY

¶8. (SBU) During the Q&A a representative from an investment bank spoke of "de-coupling" in Turkey, i.e. the dichotomy between the relative health of the banking and financial sectors and the weakness of Turkey's real sector and labor market. He noted that during the last crisis in Turkey in 2001, severe as it was, total electricity demand actually increased, while during the present crisis it has decreased. Unemployment is high (16%) and sticky, and nominal salaries are down year over year. Contraction in the trade sector has done great damage to the labor market, and the gloomy economic prospects for Europe, Turkey's largest export market, are not encouraging. Geographical diversification of trade is a good strategy for Turkey, but Turkey will not achieve this overnight.

¶9. (SBU) An interlocutor stressed the need for better infrastructure in Turkey. He opined that the legal and regulatory climate must improve to make Turkey a better target for foreign investment, and to normalize domestic business activity. Long-term international funding, both multinational and private, is needed in transportation, IT, telecomm, and energy. Atkinson concurred and said that there is renewed interest in infrastructure reform at the Fund and the World Bank.

THE DOLLAR WILL REMAIN THE WORLD RESERVE CURRENCY

¶10. (SBU) Atkinson noted that people have been predicting the demise of the dollar for some time. Despite some earlier predictions the Euro has not replaced the dollar as a reserve currency. What other currency, she asked, would replace the dollar? Atkinson cited the seemingly paradoxical strength of the dollar during the crisis, and attributes it to the depth and flexibility of U.S. capital markets. The U.S. government debt market is huge and liquid, and the United States remains an attractive target for foreign investment. Atkinson believes that the dollar will remain the world's reserve currency "for a very long time." However, she noted that there is less reason for nations to hold huge dollar reserves, since the IMF can provide "cushioning" for nations that require hard currency reserves. Rather than run huge trade surpluses, Atkinson offered, it would be more beneficial for countries such as China to stimulate domestic demand and thus serve as an anchor of global economic growth.

THE UPCOMING WORLD BANK-IMF MEETINGS

¶11. (SBU) Atkinson previewed preparations for the Annual World Bank-IMF Meetings, which will take place in Istanbul on October 6 and 7. Several days prior to the meetings there will be workshops and seminars that address various topics. Sub-groups such as the G-20, G-24, and G-8 will convene separately, as will NGO,s and private sector groups. Former UNDP (United Nations Development Programme) Director Kemal Dervis of Turkey will give the annual Per Jacobsen Lecture. Information about the October meetings and related events, as well as recent IMF publications, can be found at http://imf.org.external. The Fund,s Global Financial Stability Report (GFSR) will be released on September 30.
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